annual report | 2000-2001

WORKING TOGETHER
BUILDING OUR COMMUNITY

MANITOBA LOTTERIES CORPORATION

About the MLC

Honourable Diane McGifford
Minister responsible for Lotteries
Room 156, Legislative Building
450 Broadway
Winnipeg, Manitoba
R3C 0V8

September 17, 2001

Dear Honourable Minister:

I have the honour to present you with the Annual Report of the Manitoba Lotteries Corporation for the fiscal year ended March 31, 2001.

Respectfully submitted,

Beverly Suek
Chairperson
Board of Directors
Manitoba Lotteries Corporation

Cover Photo: MLC employees-2001 Dragon Boat Festival

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At the beginning of this fiscal year, the Board had three months to learn a complicated and challenging business. We were at the front end of the learning curve. Despite the challenges ahead, the Board was enthusiastic about being part of the gaming industry. With different backgrounds and areas of expertise, our new Board brought diverse perspectives to the issues at hand. Along with this diversity, the Board members shared a number of common values, which include:

- the importance of managing gaming within a socially responsible framework, emphasizing the entertainment value of moderate participation in gaming while mitigating problem gambling;
- managing MLC in a fiscally responsible and ethical manner for the people of Manitoba;
- valuing diversity, encouraging employee input and productive labour relations;
- having a comprehensive governance model where roles and responsibilities are clear.

Over the past fiscal year, the Board has worked with staff to put this philosophy into practice. New financial accountabilities have been put in place, new collective agreements have been finalized, ethical advertising guidelines have been developed, and human resource policies have been drafted. We also placed a high priority on employment equity and a respectful workplace. In addition, there is work in progress on a Responsible Gaming Policy, on a Governance Model and a new Strategic Plan.

Change always creates new challenges and substantially impacts staff within a Corporation. The Board recognizes the demands these changes have placed on MLC employees, but also recognizes the high degree of professionalism that all of our staff has shown in meeting these challenges, while maintaining a high level of customer service. From front line Casino and VLT staff, to the senior executives, there has been a strong commitment to dealing with these changes in a constructive and participatory manner.

The Board also acknowledges the Minister responsible for Lotteries' role in supporting the objectives of responsible and ethical governance and good business practices at MLC.

There certainly is truth in the well-worn adage: 'Change doesn't happen overnight.' But with the help of committed staff, we have made a good start. We intend to do whatever we can to enhance MLC's reputation as a respectful employer, a well-managed, customer-focused organization and an excellent corporate citizen, providing benefits to all Manitobans.

Beverly Suek,
Board Chairperson

The Manitoba Lotteries Corporation (MLC) has faced a number of challenges during the past fiscal year. They have covered a range of issues related to operations, human resources, financial and gaming activities. The Corporation has been addressing these challenges by redefining its corporate culture towards 'One Company, One Vision' - building on its corporate values to create an entity that is responsible and accountable to its customers, employees and stakeholders.

Our employees are our greatest asset. MLC is committed to providing a respectful work environment for our employees. An environment in which dignity, self-respect and respect for others are valued. We value equity and diversity and are committed to ensuring these principles are part of our management philosophy.

MLC remains committed to providing an overall quality entertainment experience for our customers in a socially responsible manner. This year the MLC provided $1.66 million to the Addictions Foundation of Manitoba (AFM) for its prevention, education and treatment programs. Manitoba ranks third in per capita funding across Canada for gambling addiction programs.

The Corporation attained another successful year financially, earning net income of $238.5 million for the Province of Manitoba. In addition to this fiscal accomplishment, the Corporation has also successfully ratified three collective bargaining agreements; implemented a restructuring of the Corporation's organization and its operational management team; initiated a five year Strategic and Business Planning process; addressed recommendations arising from the Provincial Auditor's and Human Resources Reports; and implemented several management accountability measures.

Fiscal year 2000-2001 was the first full year of operation for Club Regent and McPhillips Street Station Casinos since their redevelopment as destination full service facilities. These Casinos have been established as prominent tourism and entertainment destinations, as well as significant economic generators for the City of Winnipeg and Province of Manitoba.

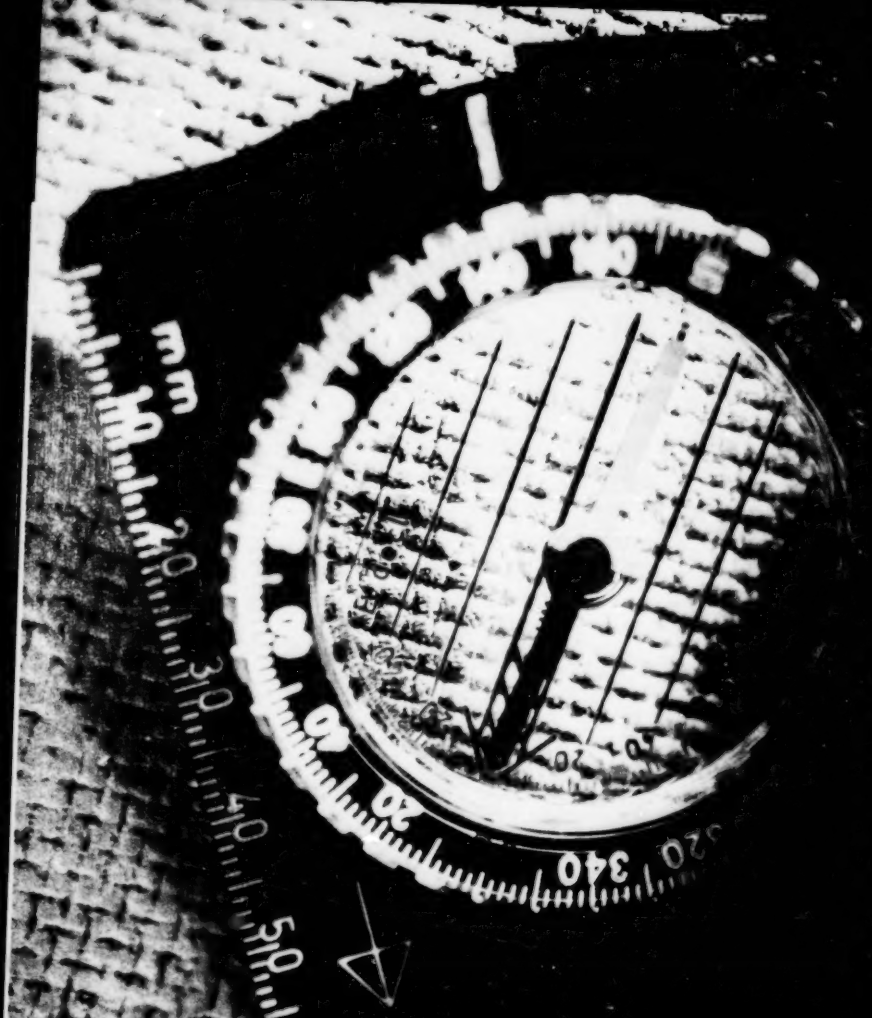
We are proud of our partnership with over 550 Video Lottery Terminal (VLT) Siteholders and over 820 Lottery Retailers throughout the province and will continue to work with them in providing quality products and services to our customers.

MLC has also been working with the First Nations Implementation Committee of the Province of Manitoba, developing agreements for the establishment of First Nations Casinos in Manitoba. We look forward to working closely with the First Nations Casino operators over the next several years to ensure successful casinos that will contribute to the economic development of First Nations communities.

During this past year, there have been many successes to celebrate. I would like to take this opportunity to personally thank all employees in the Corporation for their support, diligence, and determination to create an organization we are proud to work for.

W. Hodgins

Winston Hodgins,
Acting President & CEO



Our Mission:

To generate long-term economic benefit to the people of Manitoba by providing high quality gaming related entertainment and service within a framework of integrity and social responsibility.

Our Mandate:

- To generate revenue and economic benefit for the province of Manitoba.
- To provide gaming services in an efficient and socially responsible manner to support programs and services for all Manitoba citizens.
- To conduct and manage responsible gaming with integrity and fiscal accountability within the Criminal Code and Provincial Legislation.
- To ensure and maintain a respectful workplace for all employees, suppliers and guests.

Our Core Values:

- To improve the quality of life for Manitobans by generating revenue that is returned to the Province to fund priority government programming.
- To conduct ourselves as a fair and respectful organization in dealing with our customers and employees.
- To sustain responsible business practices with integrity and social responsibility.
- To provide state-of-the-art products, services and facilities to our customers and employees.
- To respond to the challenges of Manitoba's gaming/entertainment industry, acting on behalf of the Province and the people of Manitoba.
- To maintain a high level of reliability as a good corporate citizen.

One Company, One Vision!

MLC is committed to creating a new corporate culture. We believe our strategic focus ***'One Company, One Vision,'*** will lead to a cohesive, unified Corporation that works as a team in pursuit of its vision for the future – a vision in which everyone plays a part.

Our new corporate culture will bring a renewed, re-energized focus to our customer service. We are acting concisely and professionally to address customer needs and demands on an ongoing basis, constantly seeking ways to enhance our performance.

The MLC will also continue to redefine, develop and implement new policies and procedures for our employees and our operations. We are working to create a workplace where people can appreciate their work environment, and as a result, continue to do their work well.

We will ensure Manitobans own a vibrant, responsive and responsible Corporation that is able to move forward on a definitive basis – a Corporation with vision and foresight, integrity and employee commitment. We are ready to meet our challenges as ***One Company, One Vision!***

Our Board Members

Beverly Suek, Chairperson
Winnipeg

Lloyd LeVan Hall
Vice-Chairperson
Winnipeg

Karen Botting
Winnipeg

Nicole Campbell
Oakville

Tim Valgardson
Winnipeg

Patricia Lane
Winnipeg

Angela Palmer
The Pas

Carolyn Wray
Winnipeg

Gerald Rosenby
Winnipeg

Our Executive Management Committee

Winston Hodgins
Acting President & CEO

Peter Hak
Senior Vice President & Chief Operating Officer

Wayne Perfumo
Executive General Manager McPhillips Street Station Casino

Gerald N. Boose
Vice President, Corporate Security

Susan Olynik
Vice President, Communications & Public Affairs

Walter Nykolyszyn
Ex cutive Director, Internal Audit & Corporate Compliance

Greg Balla
Executive General Manager Club Regent Casino

Ken K. Lamoureux
Vice President & CIO, Corporate Technology Services

Guy Whitehill
Vice President, Finance & Administration

Richard Cone
Vice President, Marketing & Sales

Marilyn Robinson
Acting Vice President, Human Resources

Our Commitment to Responsible Gaming

Gaming is a popular form of entertainment in North America and is a vibrant part of the recreation industry. Most adults enjoy gaming without suffering adverse effects, however, the MLC is aware that there are some individuals who experience problems with gaming. MLC believes we have a social responsibility to develop policies and procedures that actively promote Responsible Gaming and offer assistance to those who may have a gambling problem.

The Importance of Procedures

MLC has procedures in place that outline actions to assist those with gambling problems. For example, MLC Casinos and VLT sites do not offer credit, personal cheque cashing or debit card services to enable game play. Additionally, MLC Casinos offer a Voluntary Exclusion Program whereby a person may exclude themselves from being able to enter McPhillips Street Station and Club Regent Casinos for a two-year period. Minors are also restricted from playing any MLC games.

The Power of Partnership

Another important element of our social responsibility is the MLC's ongoing relationship with the Addictions Foundation of Manitoba (AFM). In addition to providing funds for its Gambling Treatment, Education and Prevention Programs, MLC works closely with the AFM in developing training programs for Casino employees and VLT siteholders to assist problem gamblers. As well, the AFM Helpline telephone number is posted at all Lottery Retailers, VLT and Casino sites. MLC also provides tours of its Casinos to problem gambling counsellors to provide them with more insight into the gaming environment.

The Commitment Continues

The MLC continues to be at the forefront among other Canadian gaming jurisdictions with regard to Responsible Gaming. A Responsible Gaming Policy, currently under development, will strengthen this commitment. Responsible Gaming reflects our commitment to operate in a socially responsible manner and the MLC takes this responsibility very seriously.

WANTING TO WIN AT ANY COST,
IS A SURE WAY TO LOSE.
We've all seen it before. We may have even done it. We push things too far. We lose perspective. All in the name of winning. The problem is, when you lose perspective, you can end up losing a whole lot more. It's the same with gambling.
MANITOBA LOTTERIES REMINDS YOU,
IF GAMBLING IS BECOMING MORE THAN
JUST A GAME TO YOU OR ANYONE YOU KNOW,
CALL THE ADDICTIONS FOUNDATION FOR HELP.
1 800 463 1554
Inside ► 944 6382
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"Keep it A Game"

During the year, a multi-media campaign heightened awareness of Responsible Gaming through print, radio and television advertisements. The campaign used familiar situations such as playing street hockey or board games, to demonstrate that anyone can lose perspective on their behaviour when they want to win at any cost. MLC is continuing to communicate the message to remind the public to gamble responsibly.

Our Commitment to

Through REDI program funding, construction of the Brandon Riverbank Discovery Centre was partially supported with VLT revenue.

MLC's purpose is to generate long-term economic benefit to the people of Manitoba. This purpose forms the heart of our mission, defines our values and guides our mandate. Our commitment to Manitoba's communities starts with far-reaching economic contributions that impact every Manitoban.

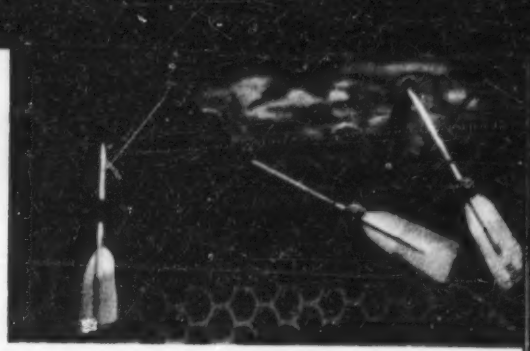
Economic Benefits - Where does the money go?

As with any large corporation, MLC produces great economic benefits for the community, both directly and indirectly. We are a significant employer in Manitoba employing over 1,900 people.

All Manitobans will benefit from our net revenue of $238.5 million this fiscal year. These are funds the provincial government allocates toward priority programs in sectors such as health care, education and social services.

The revenue generated by VLTs has a direct and positive impact on Manitoba's municipalities. The provincial government unconditionally reinvests in local communities through the allocation of 10% of VLT net revenue. This year, Manitoba communities are sharing $14.1 million in VLT net revenue to assist with local development initiatives.

The government allocates another 25% of VLT net revenue to community economic development through its Rural Economic Development Initiative (REDI) and Urban Development Initiative (UDI) programs. The remaining 65% of VLT net revenue is allocated toward programs in areas such as health care, education and social services.



Bingo Benefits to Non-Profit Organizations

Bingo volunteer operations have been a valuable means of fund-raising for non-profit groups. Through these operations, volunteers provide their time to assist MLC in the sale of Breakopen tickets and Bingo Paper at the Casinos. The MLC's bingo volunteer operations have helped provide $3.9 million in funding annually to over 400 non-profit organizations throughout the Province.

The Spirit of Sponsorship

MLC is committed to being a constructive and contributing member of the community. Each year, the MLC sponsors a multitude of organizations providing support to community events where MLC's employees live and work. These activities encourage a greater sense of civic pride and togetherness. Last year alone, we sponsored over 80 events and contributed over $200,000 to these community initiatives.

Employees In Action

The participation of the MLC in community events is not limited to a monetary role. As members of the community, our employees are involved on a more personal level, volunteering their time and talents to various causes and organizations that are important to them as individuals. The dedication and pride MLC employees have in Manitoba is evident in their actions on the job and off the job – and has the full admiration and support of the Corporation.

The Impact of Tourism

The Casinos of Winnipeg attract thousands of visitors from both outside and within the province, creating enormous economic benefits as one of Manitoba's premier tourist attractions. Group tours set an all-time high with over 1,300 group tours visiting the Casinos this past year.

A Tourism of Winnipeg Study also showed that Casino bus tours in 2000-2001 generated $38.8 million in gross economic activity and visitor expenditures. As we continue to build our reputation among tourism and travel organizations, the number of tourists – and the amount of money injected into Manitoba's economy – will continue to rise.

"The Orientation and Mobility Services Program is a vital component of independence and we are truly pleased that Manitoba Lotteries continues to support this vital program."

- Garry Nenson, Director of Development, CNIB – Manitoba Division

"It is sponsorships such as yours that help us offer this annual event to the residents and visitors of Churchill."

- Steacy Courtney, Aurora Winterfest Committee

"The Festival du Voyageur appreciates your partnership without which we could not continue to grow and change as a festival celebrating the cultural and historical "joie de vivre" that is unique to our winter festival."

- Kelley Fry, Corporate Relations Manager, Festival du Voyageur

"MLC's sponsorship of the 2000 Memory Walk assisted us in reaching out to the community with education, information and awareness about Alzheimer Disease and the services that are available to help people in Manitoba."

- Sylvia Rothney, Executive Director Alzheimer Society of Manitoba

Our Commitment to Our Customers

The gaming industry in North America is a highly competitive one and this is especially true of Manitoba. There are 40 casinos within an 8-hour drive of Winnipeg.

MLC prides itself in providing superior customer service and offering state-of-the-art products, facilities and services that generate excitement and capture the imagination.

McPhillips Street Station Casino

Customer Focused Networking

MLC supports the sale of Lottery and Video Lottery games to Manitoba consumers via a large and diverse network of VLT Siteholders and retail agents throughout the province. Support programs such as retailer incentives, retailer training, local promotions, winner awareness, retailer and consumer publications and point of purchase signs and fixtures, are all designed to assist retailers in delivering knowledgeable, quality customer service to consumers and contributing to the fun and entertainment of playing.

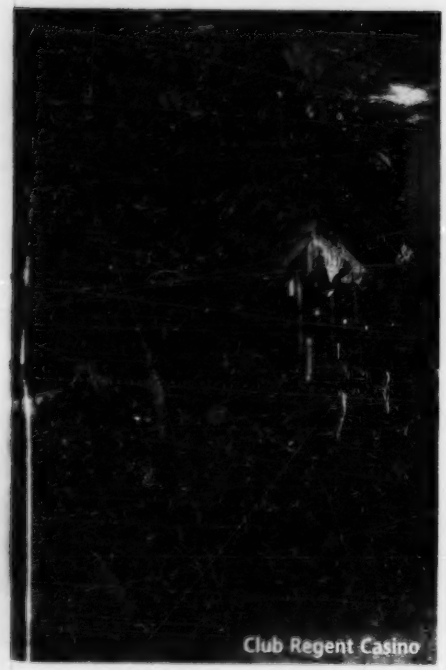
Customer Focused Training

Making certain our customers have an enjoyable experience in our Casinos is why MLC develops training programs that encourage employees to take the initiative to provide quality customer service and ensure our guests enjoy the best possible Casino experience.

MLC will also be enhancing its customer service training in the Fall of 2001 with 'Gaming's Best', a customer service training program for all MLC employees, focused on providing quality customer service internally and externally.

Casinos Offer a Total Entertainment Experience

The Casinos of Winnipeg offer a variety of exciting amenities that serve to create an overall entertainment experience that reaches beyond our games.



Club Regent Casino

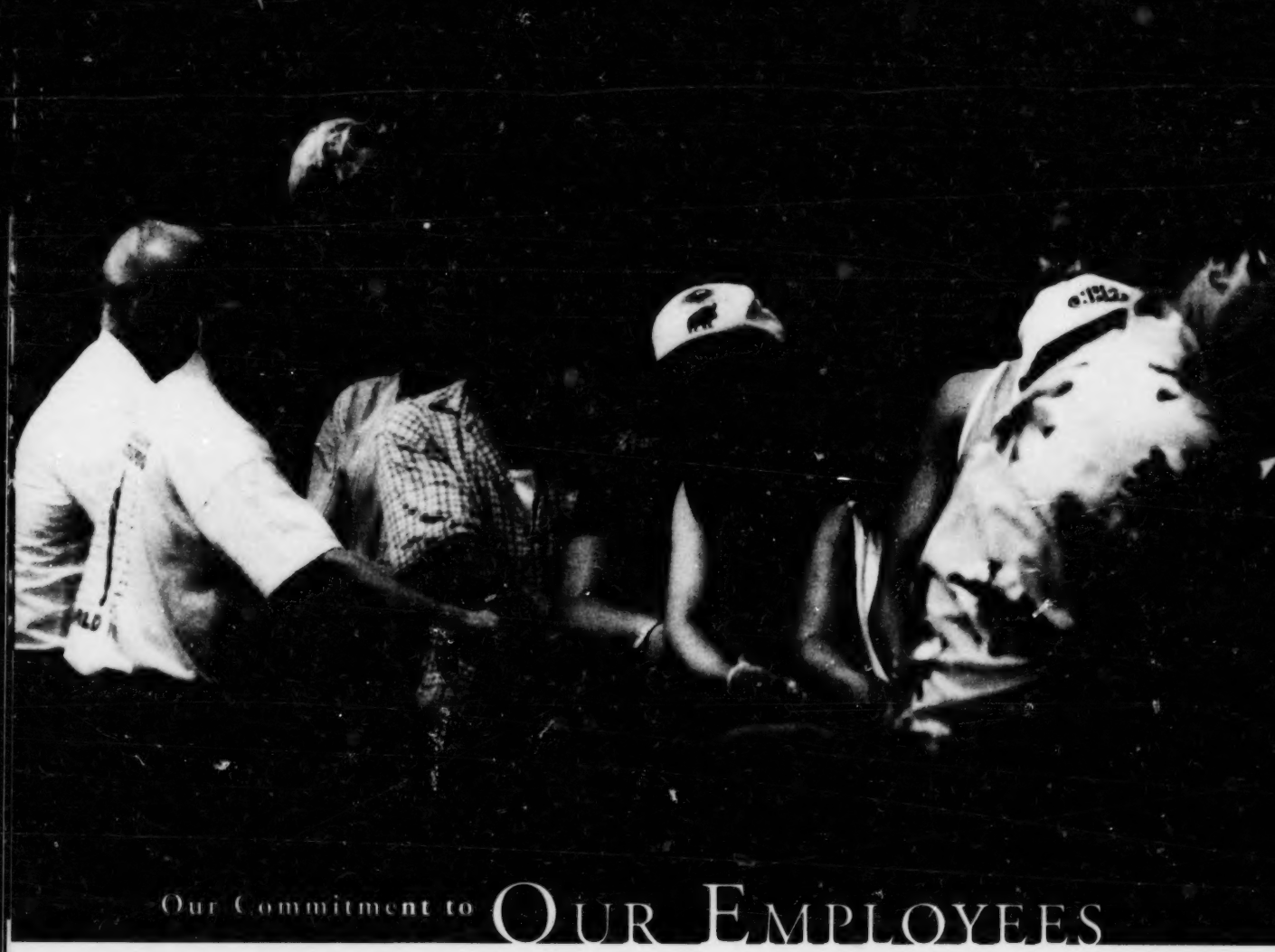
Thousands of visitors have enjoyed dining at Michele's Restaurant at McPhillips Street Station Casino and the Royal Palms Restaurant at Club Regent Casino. Popular performers have graced our stages (including Lisa Brokop, The Lovin' Spoonful, the Nylons and the Manitoba produced act "What a Show") as have outstanding tribute bands such as Super Trooper (tribute band to ABBA) and Shania Twin. Customers also enjoy participating in special events and promotions, which add extra excitement to the Casino experience.

Responses and Results

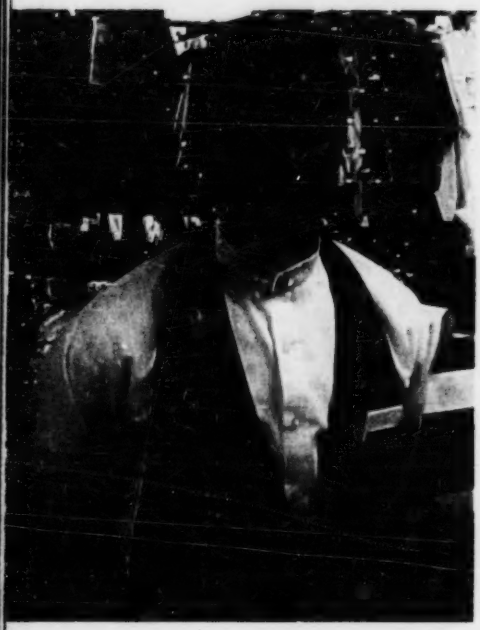
To maintain the highest level of quality in customer service, the MLC sets clear objectives to measure performance. Customer comments provide a key role in defining our objectives. We have implemented several new initiatives to better respond to our customer needs. Customer comment cards are consistently monitored, and surveys have been conducted to establish and understand customer profiles, furthering our insight into the people who choose the Casinos of Winnipeg as an entertainment source.

Our website (www.mlc.mb.ca) also provides an opportunity for submission of comments. All comments are recorded to assess the information and respond accordingly.

MLC is a people-oriented business. We want our customers to have the most enjoyable experience possible when they use our products and services. From playing Video Lottery games to purchasing Breakopen tickets, we will continue to listen and respond to our customers in order to provide them with "Manitoba's Best" in customer service.



Our Commitment to Our Employees



Our employees have made a commitment to deliver services that meet and exceed the high expectations of our customers. Each person plays a role in our ongoing success. In turn, the MLC has made a commitment to provide our employees with the best possible workplace the Corporation can offer so that we may become and remain an employer of choice in the Province of Manitoba.

Our employees are a crucial component of meeting tomorrow's challenges, and we are committed to creating a 'best-practices' work environment where people can thrive in their jobs. That commitment is reflected in the initiatives we have developed.

Over the past year, the Corporation has been diligently implementing human resource initiatives to create a corporate environment that is responsible, accountable and respectful of its employees.

A Respectful Workplace, A Productive Workplace

At the MLC, we believe that all of our employees are entitled to work in an environment that is secure and healthy. We are committed to ensuring that all of our workplace areas are respectful and free from harassment - a commitment demonstrated by our Respectful Workplace Policy.

Diversity Has Great Value

Employment Equity is achieved when organizations are representative, fair, inclusive, diverse and respectful of differences. The MLC values equity and diversity, and we apply these principles to all aspects of managing human resources. We are committed to enhancing the potential employment opportunities of Aboriginal, female, visible minority and persons with disabilities within the organization and have established a framework for the recruitment, retention, development and promotion of all MLC employees.

Always Working, Always Learning

Training is a vital component in establishing a superior level of service and increasing employee development and organizational effectiveness to ensure a productive workplace. This year, the overall training days provided to MLC staff have increased. The Human Resources Division is creating an overall training strategy to continuously review, update and facilitate training programs. Emphasis has been placed on management development training.

Honouring Years of Service

Hard work and dedication should be recognized. At the MLC, we appreciate the hard work that staff put into their jobs every day, but we believe it is just as important to show that appreciation. A Long Service Recognition Program has been established to recognize the valuable contributions of our long-standing employees. We want our staff to know that their hard work and dedication is an invaluable asset to MLC.

Opening the Lines of Communication

The MLC recognizes that communication is one of the most important tools used to build success. To support the movement toward a corporate culture of open dialogue, we have developed a new Internal Communications Strategy. The Strategy, which was prepared with employee input, has identified a number of ideas to enhance communication within the organization. This includes the development of an internal employee website or Intranet, as well as regular management meetings.

Our Commitment to FINANCIAL

MANAGEMENT AND ACCOUNTABILITY

As a provincial Crown Corporation, MLC makes operating with integrity a high priority, and nowhere is that better demonstrated than in financial and management practices. MLC's operations are continually reviewed to ensure that our policies and practices reflect this standard. This is especially important, as we are not only part of the gaming industry, but also accountable to the people of Manitoba.

Making Recommendations a Reality

In a Special Report by the Provincial Auditor in May 2000, several recommendations were made on how we could improve our financial management practices. Since that time, we have addressed these recommendations, renewing public confidence in the level of accountability practiced at the Corporation.

In his Report, the Provincial Auditor recommended that the Board of MLC should arrange for a post-expansion review of casino operations and consider the impact of all capital expenditures and long-term debt on future cash flows and profit levels of the Corporation.

As part of this review, MLC has re-examined the capital expenditures related to the casino consolidation/expansion project costs and has concluded that, with all project costs included, the project expenditures to March 31, 2001 totalled approximately $145 million.

MLC has also established firm and comprehensive corporate policies and organizational enhancements that strengthen MLC's accountability for expenditures. For example, the MLC Internal Audit function now reports to the Audit Committee of the Board of Directors.

The Provincial Auditor has been informed of our progress and has stated, "We are very pleased with the significant progress the Corporation has made in addressing the issues raised in our original report."

LOOKING

COMMITME

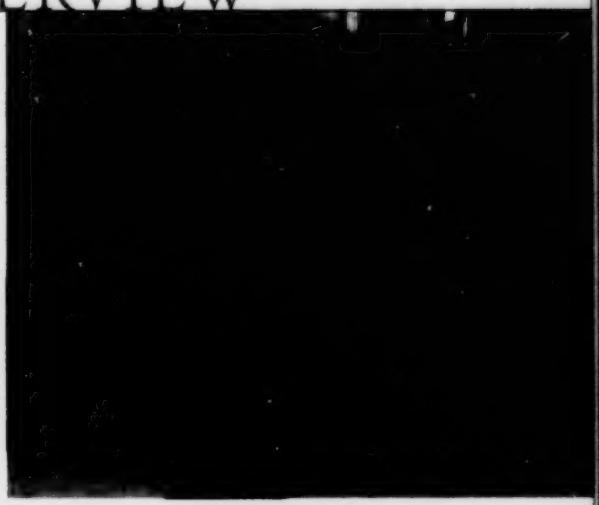
The growth that MLC has experienced over the past few years has made planning important to our continued success. In order for a plan to be effective, it must take into account the big picture. Short-term goals are not enough. The Corporation must have a longer-term vision. Therefore, we have initiated the process of creating a Strategic and Business Plan that will chart our course for the next five years.

In developing a plan that meets the needs of the entire Corporation, the MLC consulted with over 150 employees at the grassroots level from all areas, focusing on creating "best practices" for the Corporation.

We have revitalized our mission statement and reaffirmed our core values. We are setting new goals. We are developing a single, unified blueprint that will align our organizational strategy with all of our business units, support services and employees.

More importantly, we are creating this plan as one entity – together. It is a plan that will belong to everyone at the MLC – the Board, Management and Staff, working towards ***'One Company – One Vision'***.

Operational Overview

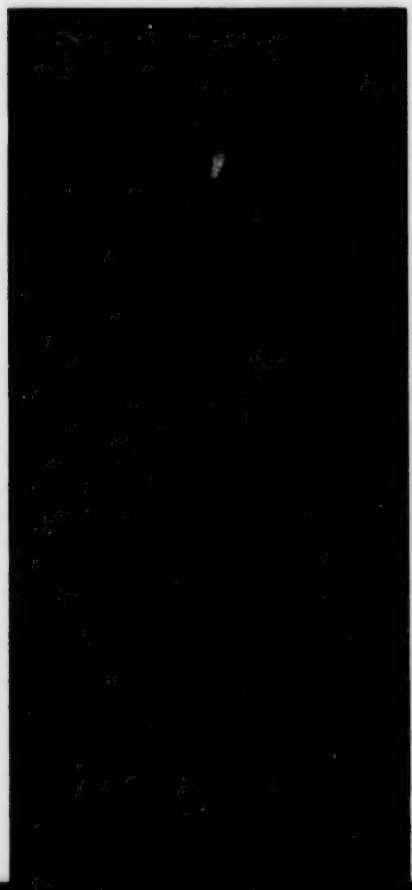


The Corporation achieved another successful year with net income increasing from $230.0 million in 1999-2000 to $238.5 million in the current year. The improvement is primarily attributable to growth in net revenue in Lottery and Casino operations, offset by a modest decline in net revenue from the Video Lottery Division. The Corporation's financial results were impacted by several important events during the year. These included: the first full year of operations at its two expanded Winnipeg Casinos, restructuring of its long term debt and negotiation of a new collective agreement with the Manitoba Government Employees' Union, representing the majority of the Corporation's employees.

Casinos of Winnipeg

McPhillips Street Station Casino is a turn-of-the-century themed Casino, styled after the grand hotels of the early 20th Century that welcomed Winnipeggers and travelers with a glamorous and elegant ambiance. Club Regent Casino takes guests to a South Seas paradise amidst palm trees, colorful fish, waterfalls, Mayan ruins and surprises at every turn.

At both Casinos, guests can choose from a variety of slot machines and touchscreen games including keno, poker, and swinging bells. Traditional favorites - paper bingo and video bingo, are also available. The Casinos also offer table games such as Blackjack, Mini Baccarat, Pai Gow Poker, Caribbean Poker, Roulette and Let it Ride. For the Poker enthusiasts there is 7 Card Stud and Texas Hold 'em.



This fiscal year marked the first 12 months of full operation for both Casinos, which were expanded in 1999. Casino operations reflected increased net revenue for the 12 months ending March 31, 2001. Club Regent Casino earned $28.7 million, an increase of $5.4 million over the previous fiscal year, while McPhillips Street Station Casino earned $35.6 million in net revenue, an increase of $4.9 million over the previous fiscal year.

Contributing to the increases in revenue were group tour and convention visits to the Casinos that reached an all-time high of 1,341 group tours, translating into almost 64,000 visitor days. The opening of the Club Regent Hotel in December 2000, also attracted customers to the Club Regent Casino which resulted in increased revenue.

Video Lottery

Video Lottery Division, headquartered in Morris, Manitoba, is responsible for the operation and maintenance of Video Lottery Terminals (VLTs). In March 2001, there were 5,015 VLTs located at 540 Manitoba Liquor Control Commission licensed beverage rooms and Veterans organizations and 25 First Nations locations, plus 140 Video Gaming Machines (VGMs) at Assiniboia Downs.

Video Lottery saw a modest reduction of $1.2 million in net revenue for the fiscal year, with net revenue of $136.2 million for 2000-2001, compared to $137.4 million for 1999-2000.

April 1, 2000 to March 31, 2001	($ in millions)	
Dollars Deposited	$659.6	
Dollars Played		$2,909.4
Dollars Won		2,702.9
Dollars Cashed Out	453.1	
Revenue	**$206.5**	**206.5**
Other Revenue		0.2
Total Revenue		**206.7**
Siteholder Commission		56.6
Direct Operating Expenses		13.9
Net Revenue		**$136.2**

Average Prize Payout

$$\frac{\text{Average Prize}}{\text{Payout}} = \frac{\text{Dollars Won (Prizes)}}{\text{Dollars Played}} = \frac{\$2,702.9}{\$2,909.4} = 92.9\%$$

MLC is a partner in the Western Canada Lottery Corporation (WCLC), a regional marketing organization responsible for the development and conduct of lotteries in the prairie provinces and territories. The MLC is the sole distributor of Lottery products in Manitoba and is responsible for the development and maintenance of a retailer network of over 820 outlets across Manitoba. Retail lottery outlets offer a variety of products including Lotto 649, Super 7, Western 649, and Scratch 'N Win Tickets. Lottery sales for Super 7, Lotto 649 and The Extra experienced increased sales this fiscal year with a number of jackpot rollovers.

Lottery Sales ($ in millions)

Product	2000-2001	1999-2000	Increase (Decrease)	Percentage Change
Lotto 649	$53.0	$51.4	$1.6	3.1%
Scratch 'N Win	38.9	41.6	(2.7)	-6.5%
Super 7	19.0	13.5	5.5	40.7%
Sport Select	16.5	15.6	0.9	5.8%
The Plus	16.1	15.8	0.3	1.9%
Western 649	5.9	6.7	(0.8)	-11.9%
Extra	4.8	3.5	1.3	37.1%
Pick 3	3.3	3.1	0.2	6.5%
	$157.5	**$151.2**	**$6.3**	**4.2%**

The increase in sales contributed to an overall increase in Lottery net revenue, from $46.9 million in 1999-2000 to $50.1 million in 2000-2001.

The MLC markets a selection of 25 Breakopen games ranging in price from 25 cents to $2 through lottery retail outlets, MLC Casinos and charitable organizations across Manitoba. MLC is also the sole distributor of bingo paper products to charitable and non-profit licensed bingo operators throughout Manitoba.

Combined Bingo and Breakopen net revenue for the fiscal year 2000-2001 was $3.3 million, a slight decrease of $241,000 over the same period last year.

In August 2000, the MLC entered into a new agreement with the Province of Manitoba for long term financing. Total debt of $165.0 million was then refinanced under this agreement. Proceeds of the refinancing were used to repay long term debt previously financed with the Royal Bank.

Video Lottery Net Revenue

April 1, 2000 to March 31, 2001	($ in millions)
Dollars Deposited	$559.6
Dollars Played	$2,909.4
Dollars Won	2,702.9
Dollars Cashed Out	453.1
Revenue	$306.5
Other Revenue	0.2
Total Revenue	306.7
Shareholder Commission	56.6
Direct Operating Expenses	113.9
Net Revenue	$136.2

Average Prize Payout

$$\text{Average Prize Payout} = \frac{\text{Dollars Won (Prizes)}}{\text{Dollars Played}} = \frac{\$2,702.9}{\$2,909.4} = 92.9\%$$

Lottery

MLC is a partner in the Western Canada Lottery Corporation (WCLC), a regional marketing organization responsible for the development and conduct of lotteries in the prairie provinces and territories. The MLC is the sole distributor of Lottery products in Manitoba and is responsible for the development and maintenance of a retailer network of over 820 outlets across Manitoba. Retail lottery outlets offer a variety of products including Lotto 649, Super 7, Western 649, and Scratch 'N Win Tickets. Lottery sales for Super 7, Lotto 649 and The Extra experienced increased sales this fiscal year with a number of jackpot rollovers.

Lottery Sales ($ in millions)

Product	2000-2001	1999-2000	Increase (Decrease)	Percentage Change
Lotto 649	$53.0	$51.4	$1.6	3.1%
Scratch 'N Win	38.9	41.6	(2.7)	-6.5%
Super 7	19.0	13.5	5.5	40.7%
Sport Select	16.5	15.6	0.9	5.8%
The Plus	16.1	15.8	0.3	1.9%
Western 649	5.9	6.7	(0.8)	-11.9%
Extra	4.8	3.5	1.3	37.1%
Pick 3	3.3	3.1	0.2	6.5%
	$157.5	$151.2	$6.3	4.2%

The increase in sales contributed to an overall increase in lottery net revenue, from $46.9 million in 1999-2000 to $50.1 million in 2000-2001.

Bingo and Breakopen

The MLC markets a selection of 25 Breakopen games ranging in price from 25 cents to $2 through lottery retail outlets, MLC Casinos and charitable organizations across Manitoba. MLC is also the sole distributor of bingo paper products to charitable and non-profit licensed bingo operators throughout Manitoba.

Combined Bingo and Breakopen net revenue for the fiscal year 2000-2001 was $3.3 million, a slight decrease of $241,000 over the same period last year.

Long Term Debt

In August 2000, the MLC entered into a new agreement with the Province of Manitoba for long term financing. Total debt of $165.0 million was then refinanced under this agreement. Proceeds of the refinancing were used to repay long term debt previously financed with the Royal Bank.

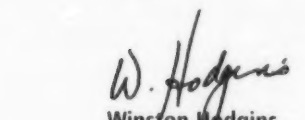
Management Report

The accompanying financial statements are the responsibility of management and have been prepared in accordance with the accounting policies stated in the financial statements. These accounting policies have been applied on a basis consistent with the prior year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

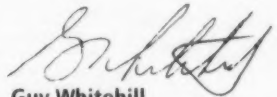
Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and that the assets of the Corporation are properly safeguarded. As part of the financial statement audit performed by Deloitte & Touche LLP, they reviewed the Corporation's internal controls to the extent they considered necessary and reported their findings to management and the Board of Directors.

The responsibility of Deloitte & Touche LLP is to express an independent opinion on whether the financial statements are fairly stated in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of the audit examination and provides the audit opinion.

The Audit Committee of the Board meets with management and Deloitte & Touche LLP to satisfy itself that each group has properly discharged its respective responsibilities and to review the financial statements before approving them. The Board has reviewed and approved these financial statements and the Annual Report in advance of its release and has approved its content and authorized its release.



Winston Hodgins
Acting President & CEO



Guy Whitehill
Vice President, Finance & Administration

Auditors' Report

To the Board of Directors
Manitoba Lotteries Corporation

We have audited the balance sheet of Manitoba Lotteries Corporation as at March 31, 2001 and the statements of net income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche, LLP.
Chartered Accountants

Winnipeg, Manitoba
May 17, 2001

FINANCIAL STATEMENTS

MANITOBA LOTTERIES CORPORATION

Balance Sheet - March 31, 2001
(in thousands)

	Notes	2001	2000
Current Assets			
Cash		$14,820	$13,438
Accounts receivable	3	8,807	7,161
Prepaid expense	4	1,846	2,264
Inventories	5	4,626	3,932
		30,099	**26,795**
Capital Assets	6	168,376	174,954
		$198,475	**$201,749**
Current Liabilities			
Accounts payable and accruals	7	$19,023	$17,298
Due to the Government of Manitoba		3,455	5,117
Due to organizations		114	72
		22,592	**22,487**
Long Term Debt	8	165,567	173,977
Accumulated Pension Benefits	2(d)	316	285
Retained Earnings		5,000	-
Equity Advance from the Government of Manitoba	9	5,000	5,000
		$198,475	**$201,749**

On behalf of the Board,

Gerald Rosenby
Director & Chair of the Audit Committee

Beverly Suek
Director & Chair of the Board

MANITOBA LOTTERIES CORPORATION
Statement of Net Income and Retained Earnings for the year ended March 31, 2001 (in thousands)

Net Revenue

	Schedules	2001	2000
Video Lottery	1	$136,192	$137,363
Lottery	2	50,070	46,920
McPhillips Street Station Casino	3	35,599	30,712
Club Regent Casino	4	28,736	23,298
Bingo and Breakopen products	5	3,252	3,493
Crystal Casino	6	-	3,269
Interest income		534	398
Other income		27	53
		254,410	**245,506**
General and administration expenses	7	(10,363)	(9,879)
Funding to:			
Addictions Foundation of Manitoba		(1,655)	(1,652)
Charitable Organizations		(3,937)	(3,932)
Net Income		**238,455**	**230,043**
Retained Earnings beginning of the year		-	-
Distributions to the Government of Manitoba		(235,117)	(225,000)
Decrease (increase) in payable to the Government of Manitoba		1,662	(5,043)
Retained Earnings end of the year		**$5,000**	**$ -**

MANITOBA LOTTERIES CORPORATION

Balance Sheet - March 31, 2001

(in thousands)

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Retained Earnings end of the year		**$5,000**	**$ -**

MANITOBA LOTTERIES CORPORATION

Statement of Cash Flows
for the year ended March 31, 2001
(in thousands)

	2001	2000
Cash provided by operating activities		
Net Income	$238,455	$230,043
Non-cash charges to income:		
Depreciation and amortization	14,847	12,376
Deferred pension benefits	31	13
	253,333	**242,432**
Net changes in non-cash working capital items	(155)	(11,787)
Cash provided by operating activities	**253,178**	**230,645**
Cash provided by financing activities		
Cash distributions to the Government of Manitoba		
Current year	(235,000)	(224,926)
Prior year	(117)	(74)
Long term debt proceeds	165,000	174,000
Repayment of long term debt	(173,410)	(96,308)
Cash provided by financing activities	**(243,527)**	**(147,308)**
Cash investment activities		
Purchase of capital assets	(8,269)	(76,301)
Increase in cash balance during the year	**1,382**	**7,036**
Cash balance, beginning of year	13,438	6,402
Cash balance, end of year	**$14,820**	**$13,438**

Schedule 1-Net Video Lottery Revenue for the year ended March 31, 2001 (in thousands)

	2001	2000
Revenue		
Video Lottery	$206,660	$205,465
Expenses		
Commission	56,624	54,369
Salaries and benefits	3,555	3,076
Goods and Services Tax	3,004	3,167
Rentals, repairs and maintenance	2,086	1,863
Interest	1,873	1,400
Depreciation and amortization	900	1,646
Postage and telephone	651	641
Maintenance transportation	564	585
Gaming Control Commission registration fee	544	493
Supplies and printing	307	272
Sundry	95	64
Consultant fees	70	106
Health and education tax	66	59
Pension	56	40
Cartage	41	43
Merchandising prizes	32	57
Community support	-	221
	70,468	**68,102**
Net Revenue	**$136,192**	**$137,363**

Statement of Cash Flows
for the year ended March 31, 2001
(in thousands)

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Pension	56	40
Cartage	41	43
Merchandising prizes	32	57
Community support	-	221
	70,468	**68,102**
Net Revenue	**$136,192**	**$137,363**

Schedule 2 - Net Lottery Revenue for the year ended March 31, 2001 (in thousands)

	2001	2000
Revenue		
Lottery sales	$157,485	$151,187
Less: Cost of sales	100,554	97,115
	56,931	**54,072**
Interest and other	975	815
	57,906	**54,887**
Expenses		
Salaries and benefits	1,334	1,235
Merchandising prizes	449	487
Rentals, repairs and maintenance	282	285
Interest	211	156
Freight and delivery	141	144
Retailer training and support	126	123
Signs and fixtures	93	96
Goods and Services Tax	73	71
Postage and telephone	57	66
Depreciation and amortization	56	55
Pension	34	31
Health and education tax	26	23
Sundry	17	19
Supplies and printing	17	9
Consultant fees	5	9
Gaming Control Commission registration fee	-	4
	2,921	**2,813**
	54,985	**52,074**
Allocation to the Provinces of Alberta and Saskatchewan	2,725	3,055
Payment to the Government of Canada (note 10)	2,190	2,099
Net Revenue	**$50,070**	**$46,920**

Schedule 3-Net McPhillips Street Station Casino Revenue for the year ended March 31, 2001
(in thousands)

Revenue	2001	2000
McPhillips Street Station Casino	$86,990	$74,711
Expenses		
Salaries and benefits	25,352	20,199
Rentals, repairs and maintenance	8,101	8,240
Depreciation and amortization	6,191	4,634
Interest	4,118	2,958
Tourism marketing and entertainment	1,713	1,644
Merchandising prizes	1,565	1,645
Supplies and printing	1,285	1,970
Sundry	730	264
Goods and Services Tax	613	756
Health and education tax	493	402
Pension	366	217
Gaming Control Commission registration fee	352	333
Postage and telephone	338	516
Consultant fees	101	149
Security	73	72
	51,391	**43,999**
Net Revenue	**$35,599**	**$30,712**

Schedule 4 - Net Club Regent Casino Revenue for the year ended March 31, 2001 (in thousands)

Revenue	2001	2000
Club Regent Casino	$81,173	$65,498
Expenses		
Salaries and benefits	24,593	19,087
Rentals, repairs and maintenance	9,204	8,352
Depreciation and amortization	6,488	4,617
Interest	4,506	3,234
Tourism marketing and entertainment	1,832	1,562
Merchandising prizes	1,553	1,608
Supplies and printing	1,114	1,358
Sundry	732	217
Goods and Services Tax	667	719
Health and education tax	468	377
Postage and telephone	443	381
Gaming Control Commission registration fee	355	306
Pension	334	190
Consultant fees	95	140
Security	53	52
	52,437	**42,200**
Net Revenue	**$28,736**	**$23,298**

Schedule 5 - Net Bingo and Breakopen Product Revenue for the year ended March 31, 2001 (in thousands)

Revenue	2001	2000
Bingo paper sales	$2,002	$2,005
Less: Cost of sales	1,564	1,618
	438	**387**
Breakopen ticket sales	4,793	5,042
Less: Cost of sales	1,127	1,144
	3,666	**3,898**
Total Revenue	**4,104**	**4,285**
Expenses		
Rentals, repairs and maintenance	324	272
Goods and Services Tax	243	246
Salaries and benefits	117	116
Cartage	102	89
Licensee and retailer promotions	22	43
Interest	18	13
Sundry	16	7
Depreciation and amortization	10	6
	852	**792**
Net Revenue	**$3,252**	**$3,493**

Schedule 6 - Net Crystal Casino Revenue for the year ended March 31, 2001 (in thousands)

	2001 (note 11)	2000 (note 11)
Revenue		
Crystal Casino	$ -	$7,015
Expenses		
Salaries and benefits	-	2,272
Rentals, repairs and maintenance	-	614
Merchandising prizes	-	167
Depreciation and amortization	-	161
Security	-	122
Supplies and printing	-	95
Goods and Services Tax	-	76
Interest	-	69
Health and education tax	-	42
Postage and telephone	-	37
Pension	-	27
Gaming Control Commission registration fee	-	24
Sundry and exit costs	-	21
Tourism marketing	-	14
Consultant fees	-	5
	-	**3,746**
Net Revenue	$ -	**$3,269**

Schedule 7 - General and Administration Expenses for the year ended March 31, 2001
(in thousands)

Expenses	2001	2000
Salaries and benefits	$4,435	$4,662
Rentals, repairs and maintenance	1,521	1,424
Depreciation and amortization	1,202	1,256
Consultant fees	929	933
Community support	792	322
Sundry	471	298
Postage and telephone	289	248
Supplies and printing	251	333
Interest	141	106
Pension	99	73
Board of Directors	96	53
Health and education tax	76	85
Cartage	50	75
Gaming Control Commission registration fee	11	11
Total Expenses	**$10,363**	**$9,879**

Notes to Financial Statements for the year ended March 31, 2001

1. Background

The Manitoba Lotteries Foundation was established by the Manitoba Lotteries Foundation Act. On July 27, 1993, the Act was amended and continued under the Manitoba Lotteries Corporation Act. By consent of the Legislative Assembly of Manitoba, the organization continues its operations as a Crown Corporation under the name of the Manitoba Lotteries Corporation.

2. Significant Accounting Policies

Revenue and expenses are recorded on an accrual basis except for lottery revenue, which is recorded as of the draw date for each ticket. Video Lottery and other gaming revenue is recorded net of prizes paid.

Capital assets are recorded at cost.
Furniture and equipment are depreciated on a straight-line basis over 5 years.
Buildings and parking lots are depreciated on a straight-line basis over 30 years.
Leasehold improvements are amortized over the term of the lease.

Capital costs are normally subject to a full year's depreciation in the fiscal year of acquisition. Due to the significance of the casino expansion capital costs and to better match revenues to expenses, depreciation in 1999-2000 on these capital assets was recorded for the eight months from the opening of the expanded casinos. Depreciation on casino expansion capital costs have increased by $2 million in 2000-2001 when 12 months depreciation was applied.

In lieu of Goods and Services Tax (GST) on lottery and gaming revenue, the Corporation pays an additional 7% GST on gaming expenditures, including retailer commissions. This additional 7% is reported as GST expense.

The additional 7% GST paid on capital expenditures is included in the cost of the asset.

An input tax credit is claimed for GST paid on non-gaming expenditures.

The Corporation makes contributions for employees and officers to a Money Purchase pension plan at prescribed rates. The pension expense related to this plan for the 2001 fiscal year is $761,000 (2000 - $428,000).

Certain other employees and officers of the Corporation are pensionable under the Civil Service Superannuation Fund (the Fund). The Corporation funded in total the actuarial present value of all prior accrued basic pension and indexing obligations as at December 31, 1997. The amount funded was $4.4 million. A reserve of $316,000 (2000 - $285,000) has been established as a pension liability for employees whose annual earnings exceed the limit under the Fund plan.

Effective January 1, 1998, the Corporation began matching employee contributions to the Fund at prescribed rates. Current service contributions are recorded as an operating expense. The pension expense related to this plan for the 2001 fiscal year is $132,000 (2000 - $154,000).

Financial Risk
Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Corporation does not use derivative instruments to reduce its exposure to interest, though risks associated with interest rate fluctuations are mitigated through the use of long-term debt.

Credit Risk
Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation mitigates this risk through its credit management and collection practices.

3. Accounts Receivable (in thousands)

	2001	2000
Western Canada Lottery Corporation	$3,616	$2,613
Trade	4,265	3,685
Restaurant Working Capital Advance	400	400
Miscellaneous	162	205
Employee Computer Program	259	152
Lottery Retailers	105	106
	$8,807	**$7,161**

The Corporation is the sole distributor of lottery products in Manitoba and is a partner in the Western Canada Lottery Corporation.

4. Prepaid Expense (in thousands)

	2001	2000
Manitoba Gaming Control Commission fees	$831	$842
Warranties and Maintenance contracts	296	633
Deposit on Entertainment contracts	250	280
Insurance	142	148
Miscellaneous	139	145
Trade Deposits	102	109
Rent	86	107
	$1,846	**$2,264**

5. Inventories (in thousands)

Inventories are valued at the lower of cost or net realizable value.

	2001	2000
Spare parts	$3,627	$2,820
Breakopen tickets	544	348
Bingo paper	309	651
Store merchandise	146	113
	$4,626	**$3,932**

6. Capital Assets (in thousands)

2001	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	$4,922	$ -	$4,922
Furniture & Equipment	112,252	92,877	19,375
Buildings & Parking lots	161,239	18,477	142,762
Leasehold Improvements	5,543	4,794	749
Capital Leases	644	76	568
	$284,600	**$116,224**	**$168,376**

2000	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	$4,922	$ -	$4,922
Furniture & Equipment	110,109	84,996	25,113
Buildings & Parking lots	156,534	13,230	143,304
Leasehold Improvements	5,543	4,531	1,012
Capital Leases	644	41	603
	$277,752	**$102,798**	**$174,954**

7. Accounts Payable and Accruals (in thousands)

	2001	2000
Trade	$12,808	$13,586
Vacation payable	2,658	2,018
Jackpot provision	2,218	1,544
Interest payable	1,167	-
Government of Manitoba	137	114
Capital lease	35	35
Western Canada Lottery Corporation	-	1
	$19,023	**$17,298**

8. Long Term Debt (in thousands)

	2001	2000
Province of Manitoba, due August 30, 2010. Rate of 6.95%.	$135,000	$ -
Province of Manitoba, due January 17, 2003. Rate based on Bankers Acceptance plus 1/4 of 1%.	30,000	-
Royal Bank of Canada, due February 28, 2001.	-	173,409
Capital lease obligations	602	603
	165,602	174,012
Less current portion of capital lease obligation	35	35
	$165,567	**$173,977**

9. Equity Advance

The Equity advance reflects $5 million for working capital provided to the Corporation by the Government of Manitoba.

10. Payment to Government of Canada

Effective January 1, 1980 the Government of Canada terminated its involvement in lotteries. In return, the ten provinces are to contribute an annual sum of $24,000,000, adjusted for inflation, to the Federal Government. The Province of Manitoba's share for the 2001 fiscal year is $2,190,048 (2000 - $2,099,073).

11. Crystal Casino

The Corporation closed the Crystal Casino on July 18, 1999 and consolidated its operations with Club Regent and McPhillips Street Station Casinos.

12. Voluntary Termination Incentive Program

The Corporation undertook an organizational restructuring during the year. During this transition, a voluntary termination incentive package was accepted by certain eligible employees at a cost of $713,654.

13 (a). Lease Obligations (in thousands)

The future minimum rental payments relating to operating leases are as follows:

2002	$651
2003	566
2004	563
2005	529
2006	496
Subsequent years	2,084
	$4,889

(b). Capital Commitments

The Corporation has commitments on outstanding capital projects at March 31, 2001 of $1.4 million (2000 - $6.1 million).

14. Contingencies

Various legal actions have been commenced against the Corporation. The Corporation or its insurers are defending against all claims. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate provisions have been made in the accounts, and the ultimate outcome will not have a material adverse effect on the Corporation's financial position.

15. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.